

CIWC EXHIBIT 1.0R

**OFFICIAL FILE**

I.C.C. DOCKET NO. 00-0366

CIWC Exhibit No. 1.0R

Witness \_\_\_\_\_

Date 11-9-00 Reporter AP

**CONSUMERS ILLINOIS WATER COMPANY**

**REBUTTAL TESTIMONY**

**OF**

**TERRY J. RAKOCY**

**CONSUMERS ILLINOIS WATER COMPANY**

**REBUTTAL TESTIMONY**

**OF**

**TERRY J. RAKOCY**

**WITNESS IDENTIFICATION AND BACKGROUND**

**Q. Please state your name and business address.**

**A. Terry J. Rakocy, 1000 South Schuyler Avenue, Kankakee, Illinois, 60901.**

**Q. Are you the same Terry J. Rakocy who filed Direct Testimony in this proceeding?**

**A. Yes, I am.**

**Q. What is the purpose of your Rebuttal Testimony?**

**A. The purpose of my Rebuttal Testimony is to respond to the testimony submitted in this matter by Staff witnesses Messrs. Sant and King.**

**RESPONSE TO MR. SANT**

**Q. Beginning at page 5, Mr. Sant discusses the approach used by CIWC to determine the original cost of the Ivanhoe water and sewer systems. Would you comment on this testimony?**

**A. Yes. As Mr. Sant indicates correctly, CIWC first surveyed the Ivahnoe system, and then estimated the present day cost of building a similar system. Using Handy-Whitman Indices, CIWC trended the estimated present day costs back to the approximate date of construction to determine an estimated original cost of the water and sewer facilities. To**

1 determine an appropriate level of contributions, CIWC used the estimated costs  
2 developed in the manner I described for those portions of the water and sewer systems  
3 which would have been contributed by developers or applicants for main extensions  
4 under the Commission's main extension deposit rules if Ivanhoe had at the time been a  
5 regulated public utility.

6  
7 **Q. Is this approach consistent with Accounting Instruction 17(c) which Mr. Sant**  
8 **references at page 6?**

9 A. Yes. Instruction 17(c) indicates that records of the predecessor entity should be analyzed  
10 as a part of the determination of original cost. The Instruction also makes clear, however,  
11 that the predecessor records are to be used only if the original cost of facilities can be  
12 determined by reference to the predecessor's records. Where the original cost cannot be  
13 determined (i.e., "known") by analysis of the predecessor's records, use of an estimate is  
14 required by the Instruction.

15  
16 **Q. Can the original cost of the water and sewer facilities be determined by reference to**  
17 **the records of Thorngate Country Club, Inc. ("Thorngate") or related entities?**

18 A. No. I do not believe that the records provide complete or clear information regarding  
19 original cost. Thorngate is not now nor has it been a regulated entity or public  
20 corporation. Thorngate does not keep its books in accordance with the Uniform System  
21 of Accounts and has not maintained separate accounts for the water or sewer systems. As  
22 Mr. Sant indicates at page 6, all of the accounting entries associated with the water and  
23 sewer systems are contained in the books of Thorngate's country club operation. There  
24 are no separate accounts.

1 **Q. Does the response to Data Request BCS-005 suggest that the original cost of all**  
2 **water and sewer system facilities are recorded in the country club's accounts?**

3 A. No. As is clear from the context, the response (CIWC Exhibit 1.1R), indicates only that  
4 all of the available accounting entries are part of the club's overall books. There is no  
5 available information indicating that these entries in total or the entries in any particular  
6 account or accounts reflect the cost of all of the water and sewer facilities. In fact,  
7 because Thorngate provided land in exchange for water systems constructed by others (as  
8 I will discuss), there is no reason to assume that the cost of any water facilities are  
9 reflected in Thorngate's accounts.

10  
11 **Q. Mr. Sant makes reference at page 8 to two accounts: Land-Wastewater and Land**  
12 **Improvements-WWTS. Would you comment on these accounts?**

13 A. Yes. There is no indication that all water and sewer system costs are recorded in these  
14 accounts. The accounts do not even refer in their titles to the water system. Because the  
15 precise make-up of the accounts is not known, there is no basis to rely on the balance of  
16 the accounts in the manner proposed by Mr. Sant.

17  
18 **Q. Was Mr. Sant able to determine what was recorded in the two accounts?**

19 A. Apparently not, as indicated by his use of CIWC's estimates to allocate amounts recorded  
20 in the two accounts among the categories of water and sewer facilities.

21  
22 **Q. Do you know the basis for Mr. Sant's belief that costs associated with the water**  
23 **system were recorded in the two accounts?**

24 A. Yes. Mr. Sant explained the basis for his belief in responding to CIWC's Data Request  
25 No. 1. A copy of the Request and Mr. Sant's response is attached as CIWC Exhibit 1.2R.  
26 As Mr. Ackman explains, however, Mr. Sant had a misunderstanding with regard to  
27 information he indicates that he received from Thorngate's management. As

1 Mr. Ackman confirms, there are no costs related to the water system recorded in either of  
2 the two accounts.

3  
4 **Q. In reaching his conclusion that water system costs were recorded in the two**  
5 **accounts, did Mr. Sant rely on Thorngate's accounting records?**

6 A. No. As I have discussed, the titles of the accounts make reference only to the wastewater  
7 system. In the response to CIWC's Data Request No. 3, marked as CIWC Exhibit 1.3R,  
8 Mr. Sant confirms that he has no accounting records or any other written material  
9 suggesting that water system costs are recorded in either account. The only  
10 documentation in Mr. Sant's possession shows account totals designated as being  
11 sewer-related. Mr. Sant has no documentation regarding what those totals represent or  
12 suggesting that the accounts include water system-related costs.

13  
14 **Q. What is your assessment of Mr. Sant's approach for determination of original cost?**

15 A. The approach is arbitrary and inappropriate. As an unregulated entity, Thorngate did not  
16 maintain utility plant records of the type used by regulated utilities. Because of  
17 Thorngate's approach, there is no basis to utilize its records to determine an original cost  
18 of property for ratemaking purposes. Mr. Sant's use of CIWC's estimates to allocate the  
19 balances of these undefined, sewer-related accounts among specific water and sewer  
20 plant categories is completely meaningless.

21  
22 **Q. Please discuss the arrangements made by Thorngate with regard to the water and**  
23 **sewer system?**

24 A. As discussed in the Response to Data Request BCS-002 (Revised), Thorngate contracted  
25 with the developers of Phase 2 of the Subdivision for construction of various  
26 infrastructure items, including the water system (on Thorngate's property and in the  
27 residential areas). In return for conveyance of the water system, other infrastructure

1 construction and a cash payment, the Phase 2 developers received land from Thorngate.  
2 Thorngate also agreed to itself construct the sewer system (on its property and in the  
3 residential areas). Ownership of the portions of the water and sewer systems which are  
4 located in residential areas was transferred under applicable agreements to Mutual  
5 Services, as referenced in my Direct Testimony. Thorngate agreed to provide water and  
6 sewer service to the Ivanhoe development using facilities on its property and the facilities  
7 owned by Mutual Services. In return, Thorngate was to receive Access Fees of \$12,000  
8 from each of the 90 residential lots in Phase 2.  
9

10 **Q. Do the two accounts referenced by Mr. Sant include costs related to the water**  
11 **facilities?**

12 **A.** No. As Mr. Ackman indicates, Thorngate paid for the water system (and other  
13 infrastructure construction) by transferring land to the Phase 2 developers. There is no  
14 indication that the cost of the transferred land is reflected in either of the two accounts or  
15 that any other cost related to the water facilities is so reflected.  
16

17 **Q. Does the fact that Phase 2 developers built the water system for Thorngate suggest**  
18 **that the original cost of water facilities should be ignored in establishing a rate base?**

19 **A.** Absolutely not. As discussed above, these facilities were not "contributed" to a public  
20 utility or other entity. As part of a comprehensive agreement, the developers provided  
21 the water system and other infrastructure required by Thorngate for the country club and  
22 remaining residential areas in return for land. Thorngate paid for these facilities, and the  
23 original cost of the water facilities should be considered in developing a water rate base.  
24 It is completely illogical to allocate unidentified costs related to a portion of Ivanhoe's  
25 sewer facilities to the water rate base as Mr. Sant proposes.  
26

1 Q. Is Mr. Sant correct in suggesting that data from the two accounts he identifies  
2 should be used to represent the original cost of the water and sewer systems?

3 A. No. Accounting Instruction 17, quoted by Mr. Sant, indicates that, when original cost  
4 cannot be determined from records (i.e., is not "known"), estimates of original cost must  
5 be utilized. Because it is not possible in this case to "know" the original cost of water or  
6 sewer facilities from a review of Thorngate's records use of estimates is appropriate as  
7 CIWC has proposed.

8  
9 Q. Please comment on Mr. Sant's proposal to use Access Fees as a measure of  
10 contributions.

11 A. As indicated above, CIWC estimated the appropriate level of contribution based on the  
12 main extension deposit rule. Using this approach, CIWC determined that, on average, for  
13 the year following the acquisition water and sewer contribution water and sewer  
14 contributions would be \$489,011 and \$601,754, respectively. Total contributions under  
15 this approach are \$1,090,765. As indicated in Data Request BCS 002 (Revised),  
16 however, CIWC does not object to use of Access Fees as an alternative to this  
17 calculation. As indicated above, Access Fees for the Phase 2 lots should ultimately reach  
18 \$1,080,000 (90 x \$12,000). (Thorngate has now received Fees only for the  
19 approximately 30 Phase 2 lots on which construction has occurred.) CIWC believes that  
20 Access Fees should be allocated between the water and sewer rate bases based on the  
21 relative water and sewer net plant. The levels of contribution under this approach are  
22 shown on Exhibit H (Revised).

1 **Q. Based on data responses, are you aware of any other misunderstanding of Mr. Sant**  
2 **with regard to the cost of the Ivanhoe water system.**

3 A. Yes. Although Mr. Sant agrees in Data Response No. 6 (CIWC Exhibit 1.4R) that the  
4 Phase 2 developers received land in return for the cost incurred in constructing the water  
5 system, Mr. Sant suggests that the developers also reflected the cost of the water system  
6 in the prices for lots sold to home buyers. There is, however, no basis to believe that this  
7 would occur. Under the applicable agreements, Thorngate paid for the sewer and water  
8 systems through: (1) construction of the sewer system at Thorngate's cost; and (2) a  
9 transfer of land to the Phase 2 developers. In return, Thorngate received the right to  
10 receive Access Fees from the purchasers of lots in Phase 2. Because each Phase 2 lot has  
11 attached to it the obligation to pay to Thorngate an Access Fee for water and sewer  
12 service, it is illogical to assume that the Phase 2 developers could also reflect the cost of  
13 the water system a second time in the price of the same lots. Thorngate paid for the water  
14 and sewer systems in the manner I have described. Homeowners in Phase 2 are required  
15 to compensate Thorngate for a portion of the cost it incurred for the water and sewer  
16 systems by paying Access Fees. As described above, CIWC proposes to give full credit  
17 for the payment of Access Fees in the form of rate base deductions for contributions.  
18 Therefore, there is no merit to Staff's proposal under which the original cost of the water  
19 system would be excluded in determining net plant.  
20

21 **Q. Do you have further comments regarding the effect of Staff's proposal with regard**  
22 **to water system costs?**

23 A. Yes. As I have explained, the Access Fees paid by purchasers for lots in Phase 2  
24 compensate Thorngate for the cost of the water and sewer systems. Therefore, amounts  
25 related to the water system are reflected as a rate base deduction due to their use in  
26 determining the amount of contributions. In essence, Staff proposes to deduct water



1 system-related contributions from a net plant figure which does not include water system  
2 costs. This is patently unfair.

3  
4 **Q. Please describe CIWC Exhibits G (Revised) and H (Revised).**

5 A. CIWC Exhibit G (Revised) has the same format as original Exhibit G. The Exhibit has  
6 been revised to reflect as a change in the tax calculation previously provided to Mr. Sant.  
7 CIWC Exhibit H (Revised) reflects revised levels of contributions for Years 1 and 5  
8 based on the Access Fee method discussed above.

9  
10 **Q. At page 11, Mr. Sant discusses the proposal to apply rates in effect in the Village of**  
11 **Mundeline for the first ten years following the acquisition. Please discuss this**  
12 **testimony.**

13 A. Under the original Ivanhoe agreements, water and sewer rates in the area have in the past  
14 been tied to rates in effect in the nearby Village of Mundeline. The agreements related to  
15 this acquisition require that this approach be continued for a ten year period. After ten  
16 years, rates would be set at the level deemed appropriate by the Commission.

17 Mr. Sant agrees that it is appropriate for CIWC to implement the current rates of  
18 the Village. Mr. Sant proposes, however, that CIWC be required to file a rate case under  
19 Article 9 in the event that it proposes to implement an increased rate established by the  
20 Village at some time in the future.

21  
22 **Q. Do you agree with Mr. Sant's proposal?**

23 A. No. As Exhibits G (Revised) and H (Revised) indicate, at the current Village rates, the  
24 rates of return realized by CIWC on water and sewer rate bases are far below the level  
25 allowed in CIWC's last rate case, 9.55% and the proposed level of 9.76% in CIWC's  
26 ongoing rate case, Dockets 00-0337, 00-0338 and 00-0339 (consolidated). Under the  
27 circumstances, it is highly unlikely that a future increase in rates placed into effect by the

1 Village could cause CIWC to earn an excessive rate of return. CIWC should not be  
2 required to incur the substantial cost of a rate proceeding (at least \$50,000) simply to  
3 adopt new Village rates for the approximately 200 customers which may ultimately exist  
4 in Ivanhoe. Because rates cannot exceed the level set by the Village, there would be no  
5 way for CIWC to recover the required rate case costs. As a result, Mr. Sant's proposal  
6 would have the effect of freezing rates at the current level for ten years. A requirement of  
7 costly rate filings with no prospect of rate case cost recovery would clearly create a  
8 disincentive to acquisition of small system, such as Thorngate's.

9  
10 **Q. Does CIWC propose a safeguard to ensure that earnings are not excessive?**

11 **A.** Yes. As Mr. Sant indicates, CIWC proposes to file a Supplemental Annual Report with  
12 its ICC Annual Report showing the actual rates of return for the Ivanhoe water and sewer  
13 rate bases. In the unlikely event that either rate of return exceeds the applicable level  
14 allowed in CIWC's immediately preceding rate case, CIWC proposes that the rate  
15 producing the higher return be reduced to an appropriate level and that revenues  
16 contributing to earnings above the last-allowed level be refunded to Ivanhoe ratepayers  
17 over a six-month period. The necessary changes to language of the Water and Sewer  
18 tariff sheets marked as CIWC Exhibit F (Pages 2 and 6 of the Exhibit for Water and  
19 Sewer Tariffs, respectively) are shown in CIWC Exhibit F (Revised).

20  
21 **RESPONSE TO MR. KING**

22 **Q. Mr. King suggests that CIWC has not demonstrated that its proposal represents the**  
23 **least-cost method for serving the Ivanhoe area. Do you agree?**

24 **A.** No. As discussed in my Direct Testimony, Thorngate does not have the knowledge or  
25 experience needed to continue serving the Ivanhoe area. Furthermore, aside from  
26 Thorngate, no entity is authorized or able to provide service for Ivanhoe. CIWC will  
27 bring to customers in Ivanhoe the benefits discussed in my Direct Testimony (pages 5-6).

1 For the reasons I have discussed and the reasons given by Mr. King at page 6, lines 8-19,  
2 CIWC's proposal represents the least-cost means of providing adequate and reliable  
3 service to customers in Ivanhoe.  
4

5 **Q. At page 5, Mr. King refers to a portion of Section 8-406. Is this statutory language**  
6 **applicable to the Petition filed in the present case?**

7 A. No. Under Section 8-406, utilities may seek two types of certificates, one type authorizes  
8 the construction of specific "facilities" and the other authorizes a utility to provide  
9 service to a geographical "area." The language quoted by Mr. King would apply to a  
10 request for a certificate authorizing construction of a specific facility. The Petition in the  
11 present case, however, does not include a proposal to construct a particular facility. The  
12 Petition seeks a Certificate authorizing CIWC to serve the Ivanhoe "area."  
13

14 **Q. Does this conclude your testimony?**

15 A. Yes, it does.  
16

CONSUMERS ILLINOIS WATER COMPANY  
STAFF DATA REQUESTS

DOCKET NO. - 00-0366  
DATE SUBMITTED: July 28, 2000

RESPONSIBLE PERSON FOR RESPONSE: TERRY J. RAKOCY, PRESIDENT

BCS-005      Have the various entities comprising Thorngate and Mutual Services had their financial statements audited, reviewed, compiled, or in any way attested by an independent accounting firm? In conjunction with BCS-004, provide copies of independently attested financial statements if available.

**Response:**      No. Thorngate has never maintained separate accounting books for the water and/or sewer systems. All accounting entries associated with the water and sewer systems are contained within the total books of Thorngate. That is, chemical purchases for water treatment are reflected as food purchases for the Club. There has been no auditing of the water and/or sewer systems by outside auditors. Mutual Services has not maintained books on the water and/or sewer systems and therefore, no outside audit reports exist.

**STAFF RESPONSE TO CONSUMERS ILLINOIS WATER COMPANY  
FIRST SET OF DATA REQUESTS  
DOCKET NO. 00-0366**

1. Request

Provide a copy of the request(s) submitted by Staff to Thorngate Country Club, Inc. ("Thorngate") in an effort to obtain accounting records related to the water and sewer system. Also, provide all information and Documents provided by Thorngate to Staff.

Reply

Mr. Sant submitted oral requests to Thorngate to obtain accounting records related to the water and sewer system. Upon conversation with Thorngate management, Mr. Sant learned that all costs related to the water and sewer systems were on Thorngate's books. When requesting to review these records, Mr. Sant was assured that all capitalized costs of the two utility systems were included in Thorngate's depreciation schedule under the accounts "Land - Waste Water" and "Land Improvements - WWTS." Thorngate provided Staff with its Depreciation Lapse Schedule containing the total costs and depreciation amounts recorded under the aforementioned accounts. This schedule is included in Mr. Sant's testimony as ICC Staff EX 1.0, Schedule 3.

3. Request

Provide all Documents and/or information in the possession of Mr. Sant with regard to the content of the two accounts referenced at page 8.

Reply

Please see response to request number 1.

6. Request

In response to Data Request BCS-002 (Revised), CIWC explained that Thorngate Country Club, Inc. ("Thorngate") constructed the entire sewer system at its cost, and that Thorngate contracted with the developers of Phase 2 to construct the water system. The response further indicates that the water system was constructed by the developers in return for land provided by Thorngate. State whether Mr. Sant disagrees with this information as provided in Data Response BCS-002. If so, explain why and provide all supporting Documents.

Reply

Mr. Sant has no reason to disagree with the information provided in the response to Data Request BCS-002 (Revised). As so indicated in this response, Thorngate provided land in return for cash and the water system.

Furthermore, the residential developers bore the costs of the actual construction of the water system. By building the construction costs of the water system into the cost of the lots, the ratepayers have contributed towards this system. The ratepayers have contributed towards the system a second time through the use of the Access Fees. The ratepayers have paid the costs of plant that are not recorded on the books of Thorngate through lot costs and the Access Fees. The ratepayers should not have to pay these costs a third time through additional plant costs that do not represent a Thorngate investment.

CONSUMERS ILLINOIS WATER COMPANY  
LAKE COUNTY DIVISION

ILL. C. C. No. \_\_\_\_  
Original Sheet No. 1

Applies To: Ivanhoe Club Development in the Unincorporated Area of Lake County, Illinois.

WATER SERVICE

Under the terms of an agreement between Consumers Illinois Water Company ("CIWC") and Thorngate Country Club, Inc., and an agreement between CIWC and Ivanhoe Club Mutual Water and Sewer System, Inc., the charges for water service within Ivanhoe Club Development, for the first ten years following acquisition of the water system by CIWC, are not to exceed 100% of the charges for such service imposed by the Village of Mundeline ("Village"), as those charges are amended from time to time.

In Docket 00-0366, the Commission authorized CIWC to file tariff sheets reflecting the then-effective rates of the Village for water service. For the first ten years following the date on which CIWC acquires the Ivanhoe Club Development water system, CIWC is authorized to charge the rates for water service provided within the Village, as such rates are changed from time to time by the Village; provided, however, that, if the rate of return for water operations in the Ivanhoe Club Development as shown by a Supplemental Annual Report (as defined below) exceeds the rate of return allowed in CIWC's immediately preceding water rate case ("Preceding Case") CIWC shall: (i) file new water rates designed to reduce the realized annual rate of return prospective to the level allowed in the Preceding Case; and (ii) refund to customers in the Ivanhoe Club Development over a six-month period the amount of revenue which would reduce the realized water rate of return shown in the Supplemental Annual Report to the level allowed in the Preceding Case. With the Annual Report submitted by CIWC to the Commission (Ill. C.C. Form 22), CIWC shall include a supplement report ("Supplemental Annual Report") showing the water operating income statement and rate base for the Ivanhoe Club Development.

Issued:

Effective:

Filed pursuant to the Order of the  
Illinois Commerce Commission in Docket 00-0366

Issued by: Garry L. Seehawer, Vice President

5301 East State Street, Suite 217, Rockford, IL 61108



CONSUMERS ILLINOIS WATER COMPANY  
LAKE COUNTY DIVISION

ILL. C. C. No. \_\_\_\_  
Original Sheet No. 1

Applies To: Ivanhoe Club Development in the Unincorporated Area of Lake County, Illinois.

SANITARY SEWER SERVICE

Under the terms of an agreement between Consumers Illinois Water Company ("CIWC") and Thorngate Country Club, Inc., and an agreement between CIWC and Ivanhoe Club Mutual Water and Sewer System, Inc., the charges for sanitary sewer service within Ivanhoe Club Development, for the first ten years following acquisition of the sanitary sewer system by CIWC, are not to exceed 100% of the charges for such service imposed by the Village of Mundeline ("Village"), as those charges are amended from time to time.

In Docket 00-0366, the Commission authorized CIWC to file tariff sheets reflecting the then-effective rates of the Village for sanitary sewer service. For the first ten years following the date on which CIWC acquires the Ivanhoe Club Development sanitary sewer system, CIWC is authorized to charge the rates for sanitary sewer service provided within the Village, as such rates are changed from time to time by the Village; provided, however, that, if the rate of return for sewer operations in the Ivanhoe Club Development as shown by a Supplemental Annual Report (as defined below) exceeds the rate of return allowed in CIWC's immediately preceding sewer rate case ("Preceding Case") CIWC shall: (i) file new sewer rates designed to reduce the realized annual rate of return prospective to the level allowed in the Preceding Case; and (ii) refund to customers in the Ivanhoe Club Development over a six-month period the amount of revenue which would reduce the realized sewer rate of return shown in the Supplemental Annual Report to the level allowed in the Preceding Case. With the Annual Report submitted by CIWC to the Commission (Ill. C.C. Form 22), CIWC shall include a supplement report ("Supplemental Annual Report") showing the sewer operating income statement and rate base for the Ivanhoe Club Development.

Issued:

Effective:

Filed pursuant to the Order of the  
Illinois Commerce Commission in Docket 00-0366

Issued by: Garry L. Seehawer, Vice President

5301 East State Street, Suite 217, Rockford, IL 61108

CONSUMERS ILLINOIS WATER COMPANY  
INCOME STATEMENT 2000 & YEAR 5 PRO-FORMA  
IVANHOE COUNTRY CLUB DEVELOPMENT  
WATER SYSTEM

October 5, 2000

	YEAR 1 2000	YEAR 5 2004 PRO-FORMA
<b>REVENUE</b>		
Utility Revenue	79,300	120,674
Other Revenue	0	0
<b>Total Revenue</b>	<b>79,300</b>	<b>120,674</b>
<b>OPERATIONS AND MAINTENANCE</b>		
Labor	7,100	16,815
Employee Benefits	2,343	5,549
Purchased Water	0	0
Sludge Removal/Hauling	0	0
Power	6,000	6,000
Chemicals	2,500	2,654
Outside Services	7,200	7,644
Leases	0	0
Supplies	500	531
Transportation	500	531
Insurance	250	265
Bad Debt Expense	400	425
Other Expenses	1,500	1,592
<b>Total Oper &amp; Maint.</b>	<b>28,293</b>	<b>42,006</b>
Amortization	0	0
Depreciation	25,161	26,795
Taxes - Other	6,661	6,661
Federal Taxes	(5,111)	3,344
State Taxes	(1,130)	739
<b>Operating Income</b>	<b>25,426</b>	<b>41,128</b>

**Assumptions For Year 5 - 2004:**

Revenue: Customer growth of 12 per year, based on history.

**O & M:**

Labor: Merit increase of 3% annually.

Benefits: 33% of Labor Expense.

Power: no increase.

All Other O & M: inflation of 1.506% annually.

Depreciation: based on capital additions of \$18,000 annually.

Taxes Other: no increase.

CONSUMERS ILLINOIS WATER COMPANY  
INCOME STATEMENT 2000 & YEAR 5 PRO-FORMA  
IVANHOE COUNTRY CLUB DEVELOPMENT  
WASTEWATER SYSTEM

October 5, 2000

	YEAR 1 2000	YEAR 5 2004 PRO-FORMA
<b>REVENUE</b>		
Utility Revenue	29,700	45,196
Other Revenue	0	0
<b>Total Revenue</b>	<b>29,700</b>	<b>45,196</b>
<b>OPERATIONS AND MAINTENANCE</b>		
Labor	14,500	16,815
Employee Benefits	4,785	5,549
Purchased Water	0	0
Sludge Removal/Hauling	0	0
Power	18,000	18,000
Chemicals	500	531
Outside Services	5,400	5,733
Leases	0	0
Supplies	500	531
Transportation	500	531
Insurance	250	265
Bad Debt Expense	149	158
Other Expenses	1,500	1,592
<b>Total Oper &amp; Maint.</b>	<b>46,084</b>	<b>49,705</b>
Amortization	0	0
Depreciation	64,400	64,400
Taxes - Other	11,699	11,699
Federal Taxes	(49,969)	(46,111)
State Taxes	(11,044)	(10,191)
<b>Operating Income</b>	<b>(31,470)</b>	<b>(24,306)</b>

**Assumptions For Year 5 - 2004:**

**Revenue:** Customer growth of 12 per year, based on history.

**O & M:**

Labor: Merit increase of 3% annually.

Benefits: 33% of Labor Expense (same as Years 1-4).

Power: no increase.

All Other O & M: inflation of 1.506% annually.

**Depreciation:** based on capital additions of \$18,000 annually.

**Taxes Other:** no increase.

CONSUMERS ILLINOIS WATER COMPANY  
INCOME STATEMENT 2000 & YEAR 5 PRO-FORMA  
IVANHOE COUNTRY CLUB DEVELOPMENT  
CONSOLIDATED

October 5, 2000

	YEAR 1 2000	YEAR 5 2004 PRO-FORMA
<b>REVENUE</b>		
Utility Revenue	109,000	165,870
Other Revenue	0	0
<b>Total Revenue</b>	<u>109,000</u>	<u>165,870</u>
<b>OPERATIONS AND MAINTENANCE</b>		
Labor	21,600	33,630
Employee Benefits	7,128	11,098
Purchased Water	0	0
Sludge Removal/Hauling	0	0
Power	24,000	24,000
Chemicals	3,000	3,185
Outside Services	12,600	13,376
Leases	0	0
Supplies	1,000	1,062
Transportation	1,000	1,062
Insurance	500	531
Bad Debt Expense	549	582
Other Expenses	3,000	3,185
<b>Total Oper &amp; Maint.</b>	<u>74,377</u>	<u>91,711</u>
Amortization	0	0
Depreciation	89,561	91,196
Taxes - Other	18,360	18,360
Federal Taxes	(55,080)	(42,767)
State Taxes	(12,173)	(9,452)
<b>Operating Income</b>	<u>(6,044)</u>	<u>16,823</u>

**EXHIBIT H (REVISED)**

Page 1 Of 2

**IVANHOE ACQUISITION  
FORECASTED AVERAGE RATE BASE  
WATER SYSTEM**

<b><u>Component</u></b>	<b>ACQUISITION 2000</b>	<b>YEAR 5 2004</b>
Utility Plant In Service	\$ 1,624,987	\$ 1,696,987
Less: Accumulated Depreciation	<u>\$ (256,504)</u>	<u>\$ (360,417)</u>
Net Utility Plant In Service	\$ 1,368,483	\$ 1,336,570
Deduct:		
Contributions In Aid Of Construction - Net	<u>\$ (396,985)</u>	<u>\$ (361,255)</u>
<b>ORIGINAL COST RATE BASE:</b>	<b><u>\$ 971,498</u></b>	<b><u>\$ 975,315</u></b>
<b>Rate Of Return On Rate Base: (Operating Income / Rate Base)</b>	<b>2.62%</b>	<b>4.20%</b>

**EXHIBIT H (REVISED)**

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**IVANHOE ACQUISITION  
FORECASTED AVERAGE RATE BASE  
WASTEWATER SYSTEM**

<b><u>Component</u></b>	<b>ACQUISITION 2000</b>	<b>YEAR 5 2004</b>
Utility Plant In Service	\$ 2,795,805	\$ 2,795,805
Less: Accumulated Depreciation	<u>\$ (649,328)</u>	<u>\$ (906,929)</u>
Net Utility Plant In Service	\$ 2,146,477	\$ 1,888,876
Deduct:		
Contributions In Aid Of Construction - Net	<u>\$ (683,015)</u>	<u>\$ (621,545)</u>
<b>ORIGINAL COST RATE BASE:</b>	<b><u>\$ 1,463,462</u></b>	<b><u>\$ 1,267,331</u></b>
<b>Rate Of Return On Rate Base: (Operating Income / Rate Base)</b>	<b>-2.15%</b>	<b>-1.92%</b>